



Been there, done that - a look at the US banking "reform"

There's a reason American workers aren't paying much attention to the new financial regulations. And no, it isn't out of "apathy."

Despite making a combined \$18 billion in profits last quarter alone, major banks are still doing all that they can avoid new consumer protection legislation – and, we might add, new legislation hasn't made it too difficult for them.

Much like the recent CARD Act, banks are quickly finding loopholes in the new legislation to recoup any of their potential losses. A new Bank of America program in Georgia, for example, is now charging customers to simply receive bank statements in the mail.

Amongst other plans in the works, banks may begin raising arbitrary "minimum balance requirements" for consumers, charging people for simply not having enough money in their accounts.

New Oversight:

Amongst the bills more popular attributes is its creation of a new Bureau of Consumer Financial Protection. And here is where the liberal rallying cry "more regulation!" falls apart.

The idea that government regulators are any better suited to watch out for our best interests than corporations are is baseless.

It is, in fact, not an issue of good or bad regulation, but the philosophy of government regulation itself which is absurd.

These days, we are extremely hard pressed to find where the line between politician and CEO lies; the place where being a regulator ends, and being a lobbyist starts. The fact of the matter is, no government agency in the United States today is immune from the insidious influences of the wealthy.

The newly created Bureau of Consumer Financial Protection (BCFP), for example, is already set to change from a regulatory agency to yet another revolving door for wall street insiders - and, I might add, it hasn't even officially been established yet!

Just a casual glance at the news reveals what a heated political battle is already being waged over the appointment of a new director.

But of the dozens of people recommended to take up the new position, one in particular stands out to Democratic party leaders: the current chair of the Congressional Oversight Panel for TARP, Elizabeth Warren.

But Democrats, looking to appoint Warren, are stuck between a rock and a hard place. As political analyst Ezra Klein correctly points out, Obama's administration needs to demonstrate to his disillusioned base that he and his party can deliver on promises like more consumer protection. But doing so will anger our Wall Street masters of the universe, who may react to the appointment of Warren by slowing our already stagnate credit supply.

Republicans, with a different strategy but for similar reasons, are gearing up to possibly filibuster the nomination of Warren, a woman too whole-heartedly skeptical of the financial sector for their liking.

Both parties, you'll note, are still fundamentally trying to please Wall Street, who after all does pay their bills – and even regularly writes their legislation.

“...the special interests opposing us contributed to the failure of the financial system. They're trying to preserve the system that failed, and Congress is listening to them in some respects,” observed Ed Mierzwinski, consumer advocate for US PIRG.

It only makes sense that politicians listen to their Wall Street backers – they are not only their financial benefactors, but often their close colleagues and business partners.

Take for example the case of Micheal Paese, Goldman Sach's top lobbyist in Washington D.C. who managed to become head staff member to House Financial Services Committee Chairman Barney Frank – the man who Time magazine pointed out “presided over the negotiations on financial reform.”

Similarly, former Goldman lobbyist Mark Patterson has weaseled his way into the Treasury Department, and is now currently serving as its chief of staff.

The revolving door, of course, goes both ways: a former adviser to Senator Chris Dodd (both the chairman of the Senate Banking Committee and author of many financial regulatory reforms), Janice O'Connell, has recently been hired onto Goldman's lobbying firm.

These close relationships prompt the Christian Science Monitor to recall that “[In] all, the finance, insurance, and real estate industries spent a record \$475 million on campaign contributions to congressional candidates in the 2008 cycle and are ramping up for 2010 midterm elections.”

What, given the recent history of our country’s government, could possibly make anyone believe the BCFP will be any less subject to the pressures of Wall Street than any other office in government? Wasn’t also Wall Street able to tear down the post-depression era Glass-Steagel Act, and if so, what in these reforms will stop them from doing the same to the Dodd-Frank Bill?

New derivatives and mortgage regulations:

Perhaps just as important as, although less popular than, the creation of a new consumer protection bureau, are the new regulations governing derivatives and mortgages.

Both new sets of regulation offer positive steps forward. Derivatives, for example, will now be traded publicly, in much the same way stocks are, and new mortgage regulation prohibiting NINA sales (selling mortgages without proof of income) will offset the likelihood of another massive housing bubble.

But in regard to these regulations’ original purpose – to fix the underlying problems that led to our current economic crisis – at most we can only call these reforms band-aids.

To begin with, the housing bubble and the derivatives which helped create it were only the trigger for a much larger underlying problem.

As we discussed in a previous article, the real problem with the American economy, the real reason we were hit so hard by the recession, is that we have had to rely so heavily on consumer credit.

Since the early 1970’s, American workers have been forced to take on more and more debt as their wages have stagnated and declined. Slowly, this debt had been building up into an unwieldy and destabilizing force in our economy.

Banks and employers were willing to ignore the dangerous nature of this increasing debt problem, however, because it meant that 1. employers could continue to lower their workers’ wages and 2. banks could find new ways of making money off of desperate workers – such as making payday or NINA loans.

This arrangement, however, could only last so long.

It was convenient for banks to make more and more ridiculous loans to increasingly poor workers as the years went on, in order to keep up consumer spending in the economy – but eventually, you can guess, those absurd loans are going to catch up with us.

It doesn’t take a rocket scientist to figure out (or an economist, for that matter) that if you’re loaning more and more money to people whose wages are dropping lower and lower, eventually they won’t be able to pay anything back at all. This is exactly what happened to us when we were hit with a wave of mortgage defaults and bankruptcies.

The massive amount of debt U.S. households had been forced to take on in this country over the past 40 years was a ticking time bomb. A massively overinflated housing bubble, powered by new financial innovations like collateralized debt obligations, wasn’t the problem at all. They were just the straw that broke the camels back.

Nothing, to date, has been done to remedy this issue – certainly nothing in the current financial regulation.

Conclusions:

These supposed “fixes” to the American financial system, of course, are anything but.

It fails to address systemic problems in our economy, fails to address the inevitable Wall Street fight back against the bill itself, and fails to adequately address some of the biggest concerns citizens have about the last bailout.

Many outraged workers are rightly asking whether or not the new legislation will prevent another massive bailout. The answer is a resounding “theoretically!”

As New York Times author Steven Davidoff notes,

“The bill will still allow the government to fashion ad hoc remedies in the case of a failing financial institution. It also erects a financial insolvency regime that will allow the government to punish failing financial institutions and their creditors.

“However, it appears there is enough wiggle room in the bill and elsewhere in the laws that the government will still be able to structure unique one-off solutions in any financial crisis. We just won’t know until the law is tested.”

I’m not holding my breath.

For the original article, and more like it, feel free to visit [the Trial by Fire](#).